

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Peninsula Township</b>	County <b>Grand Traverse</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>6/16/05</b>	Date Accountant Report Submitted to State: <b>9/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

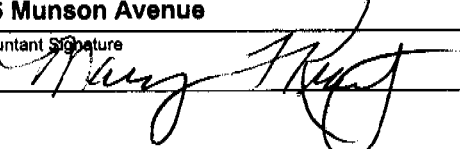
- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**Dennis, Gartland & Niergarth, P.C.**

Street Address <b>415 Munson Avenue</b>	City <b>Traverse City</b>	State <b>MI</b>	ZIP <b>49686</b>
Accountant Signature 		Date <b>9-30-05</b>	

**Peninsula Township**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

March 31, 2005

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DENNIS, GARTLAND & NIERGARTH P.C.

Business and Financial Advisors  
*Our clients' success – our business*

Thomas E. Gartland, CPA  
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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Township Board  
Peninsula Township

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of **Peninsula Township** (the "Township") as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Peninsula Township as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has not presented a management discussion and analysis that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on pages 28 - 30 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Member of



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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants agreements and other matters. The purpose of that report is describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Governmental Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

*Dennis, Gartland & Niergarth, P.C.*

June 16, 2005

# Peninsula Township

## STATEMENT OF NET ASSETS

March 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 5,270,946	\$ 434,193	\$ 5,705,139
Investments	49,578	-	49,578
Accounts and advances receivable	12,147	11,634	23,781
Special assessments receivable	-	98,087	98,087
Property taxes receivable	48,773	-	48,773
Internal balances	-	107,955	107,955
Due from other governmental units	55,596	31,242	86,838
Interest receivable	-	14,309	14,309
Prepaid expenditures and deferred charges	12,134	1,611	13,745
Total current assets	<u>5,449,174</u>	<u>699,031</u>	<u>6,148,205</u>
Capital assets, net of accumulated depreciation	6,222,709	5,197,139	11,419,848
<b>OTHER ASSETS</b>			
Unearned long-term lease income	-	22,631	22,631
Special assessments receivable, net of current portion	-	829,176	829,176
Riser and benefit charges receivable	-	87,108	87,108
Bond issuance costs, net	-	9,723	9,723
Total other assets	<u>-</u>	<u>948,638</u>	<u>948,638</u>
Total assets	<u>\$ 11,671,883</u>	<u>\$ 6,844,808</u>	<u>\$ 18,516,691</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 31,215	\$ 67,447	\$ 98,662
Accrued interest	143,829	51,062	194,891
Due to other governmental units	10,776	-	10,776
Internal balances	44,420	-	44,420
Deposits and advances	-	240	240
Current portion of long-term debt	281,172	290,177	571,349
Total current liabilities	511,412	408,926	920,338
Non-current liabilities			
Long-term liabilities	<u>5,994,538</u>	<u>3,164,667</u>	<u>9,159,205</u>
Total liabilities	<u>6,505,950</u>	<u>3,573,593</u>	<u>10,079,543</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(196,830)	1,691,233	1,494,403
Restricted	22,996	-	22,996
Unrestricted	<u>5,339,767</u>	<u>1,579,982</u>	<u>6,919,749</u>
Total net assets	<u>5,165,933</u>	<u>3,271,215</u>	<u>8,437,148</u>
Total liabilities and net assets	<u>\$ 11,671,883</u>	<u>\$ 6,844,808</u>	<u>\$ 18,516,691</u>

The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## STATEMENT OF ACTIVITIES

For the year ended March 31, 2005

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contribution	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government							
Fire	\$ 767,779	\$ -	\$ 357,533	\$ -	(410,246)	\$ -	(410,246)
Police	226,544	-	-	3,150	(223,394)	-	(223,394)
Bowers Harbor Improvement	61,148	-	-	-	(61,148)	-	(61,148)
Public Improvement	-	-	200	-	200	-	200
Senior Center	5,991	-	-	-	(5,991)	-	(5,991)
Log Home Maintenance	11,330	-	-	-	(11,330)	-	(11,330)
Summer Tax Collection	-	-	1,105	-	1,105	-	1,105
Public Improvement Roads	13,781	-	15,140	-	1,359	-	1,359
Purchase of Development Rights ("PDR")	4,438	-	-	-	(4,438)	-	(4,438)
Cable Fund	84,371	-	-	-	(84,371)	-	(84,371)
Interest on long-term debt	3,736	-	-	-	(3,736)	-	(3,736)
Depreciation - unallocated	208,407	-	-	-	(208,407)	-	(208,407)
	109,157	-	-	-	(109,157)	-	(109,157)
<b>Total governmental activities</b>	<b>1,496,682</b>	<b>-</b>	<b>373,978</b>	<b>3,150</b>	<b>(1,119,554)</b>	<b>-</b>	<b>(1,119,554)</b>
<b>Business-type activities</b>							
Sewer	298,822	185,229	-	90,000	-	(23,593)	(23,593)
Water	126,409	83,421	-	-	-	(42,988)	(42,988)
Compactor Station	48,456	46,960	-	-	-	(1,496)	(1,496)
Tower	20,427	57,188	-	-	-	36,761	36,761
<b>Total business-type activities</b>	<b>494,114</b>	<b>372,798</b>	<b>-</b>	<b>90,000</b>	<b>-</b>	<b>(31,316)</b>	<b>(31,316)</b>
<b>Total primary government</b>	<b>\$ 1,990,796</b>	<b>\$ 372,798</b>	<b>\$ 373,978</b>	<b>\$ 93,150</b>	<b>(1,119,554)</b>	<b>(31,316)</b>	<b>(1,150,870)</b>
<b>General purpose revenues</b>							
Taxes							
Property taxes, levied for general purposes					787,836	-	787,836
Property taxes, levied for debt service					809,422	-	809,422
Investment earnings					63,156	77,100	140,256
Miscellaneous					103,252	3,269	106,521
Transfers					(12,000)	-	(12,000)
Special item - discontinuance of retiree health insurance plan					1,115,923	-	1,115,923
<b>Total general revenues, transfers and special items</b>					<b>2,867,589</b>	<b>80,369</b>	<b>2,947,958</b>
<b>Change in net assets</b>							
Net assets, beginning of year					1,748,035	49,053	1,797,088
					3,417,898	3,222,162	6,640,060
<b>Net assets, end of year</b>					<b>\$ 5,165,933</b>	<b>\$ 3,271,215</b>	<b>\$ 8,437,148</b>

-5- The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2005

	General Fund	Fire Fund	PDR Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 217,790	\$ 621,538	\$ 4,016,162	\$ 415,456	\$ 5,270,946
Restricted investments	-	-	49,578	-	49,578
Accounts and advances receivable	11,764	-	-	383	12,147
Property taxes receivable	9,022	11,599	24,629	3,523	48,773
Due from other funds	104,412	-	32,097	27,321	163,830
Due from other governmental units	55,596	-	-	-	55,596
Prepaid expenditures and deferred charges	8,967	2,361	778	28	12,134
Total assets	<u>\$ 407,551</u>	<u>\$ 635,498</u>	<u>\$ 4,123,244</u>	<u>\$ 446,711</u>	<u>\$ 5,613,004</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ 3,907	\$ 395	\$ 26,913	\$ 31,215
Due to other funds	12,676	92,865	-	102,709	208,250
Due to other governmental units	-	-	10,776	-	10,776
Total liabilities	12,676	96,772	11,171	129,622	250,241
<b>FUND BALANCES</b>					
Reserved for					
Perpetual Care	-	-	-	21,450	21,450
Fire Fund	-	101,044	-	-	101,044
Unreserved	394,875	437,682	4,112,073	295,639	5,240,269
Total fund balances	394,875	538,726	4,112,073	317,089	5,362,763
Total liabilities and fund balances	<u>\$ 407,551</u>	<u>\$ 635,498</u>	<u>\$ 4,123,244</u>	<u>\$ 446,711</u>	

### Reconciliation of Governmental Fund Balances to District-Wide Governmental Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$6,468,937 and the accumulated depreciation is \$246,228.

6,222,709

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:

Notes payable	\$ 6,344,920	
Accrued interest on notes	143,829	
Unamortized bond issuance costs	(69,210)	(6,419,539)

Total net assets - governmental activities

\$ 5,165,933

The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended March 31, 2005

	General Fund	Fire Fund	PDR Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 296,491	\$ 375,616	\$ 809,422	\$ 115,729	\$ 1,597,258
State grants	357,533	3,150	-	-	360,683
Charges for services	-	-	-	16,454	16,454
Interest income	15,354	7,725	37,071	5,278	65,428
Other revenue	22,680	350	-	77,941	100,971
<b>Total revenues</b>	<u>692,058</u>	<u>386,841</u>	<u>846,493</u>	<u>215,402</u>	<u>2,140,794</u>
<b>EXPENDITURES</b>					
Legislative	47,515	-	-	-	47,515
General government	536,679	-	84,371	36,658	657,708
Public safety	112,994	226,544	-	63,766	403,304
Recreation and culture	69,440	-	-	-	69,440
Capital outlay	10,691	172,729	1,067,430	-	1,250,850
Debt service	-	-	1,394,348	315,233	1,709,581
<b>Total expenditures</b>	<u>777,319</u>	<u>399,273</u>	<u>2,546,149</u>	<u>415,657</u>	<u>4,138,398</u>
<b>REVENUES UNDER EXPENDITURES</b>	<u>(85,261)</u>	<u>(12,432)</u>	<u>(1,699,656)</u>	<u>(200,255)</u>	<u>(1,997,604)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond proceeds	-	-	5,000,000	-	5,000,000
Bond issuance costs	-	-	(73,281)	-	(73,281)
Operating transfers in	76,000	-	-	316,000	392,000
Operating transfer out	(12,000)	-	(316,000)	(76,000)	(404,000)
<b>Total other financing sources (uses)</b>	<u>64,000</u>	<u>-</u>	<u>4,610,719</u>	<u>240,000</u>	<u>4,914,719</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(21,261)</u>	<u>(12,432)</u>	<u>2,911,063</u>	<u>39,745</u>	<u>2,917,115</u>
Fund balance, beginning of year	<u>416,136</u>	<u>551,158</u>	<u>1,201,010</u>	<u>277,344</u>	<u>2,445,648</u>
Fund balance, end of year	<u>\$ 394,875</u>	<u>\$ 538,726</u>	<u>\$ 4,112,073</u>	<u>\$ 317,089</u>	<u>\$ 5,362,763</u>

The accompanying notes are an integral part of these financial statements.

## Peninsula Township

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

For the year ended March 31, 2005

**Total net change in fund balances - governmental funds** **\$ 2,917,115**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital outlays	\$ 1,249,699	
Depreciation expense	<u>(109,157)</u>	1,140,542

In the statement of activities, certain operating expenses - accrued health insurance - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, the retiree health insurance program was terminated, resulting in a decrease in liabilities of \$1,115,923. 1,115,923

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 1,584,096

Bond proceeds are a revenue in the governmental funds, but it is recorded as a liability in the statement of net assets. (5,000,000)

Capitalization of bond issuance costs 73,281

Amortization of bond issuance costs. (4,071)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of the increase in accrued interest on bonds payable. (78,851)

**Change in net assets of governmental activities** **\$ 1,748,035**

# Peninsula Township

## COMBINING STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2005

	Business-Type Activities - Enterprise Funds				
	Sewer Fund*	Water Fund*	Compactor Station Fund	Tower Fund	Total
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 113,378	\$ 243,741	\$ 204	\$ 76,870	\$ 434,193
Due from county					
Receiving fund	28,298	1,885	-	-	30,183
Debt service	535	524	-	-	1,059
Due from other funds	154,257	116,606	-	-	270,863
Receivables					
Accounts	-	11,634	-	-	11,634
Special assessments	56,050	42,037	-	-	98,087
Interest receivable	7,936	6,373	-	-	14,309
Prepaid expenses	-	-	1,611	-	1,611
Total current assets	<u>360,454</u>	<u>422,800</u>	<u>1,815</u>	<u>76,870</u>	<u>861,939</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>					
Land improvement	-	-	-	6,530	6,530
Tower	-	-	-	262,720	262,720
Equipment	1,500	1,254,846	40,239	-	1,296,585
Sewer projects	4,396,555	-	-	-	4,396,555
Construction in progress	<u>146,097</u>	<u>47,225</u>	<u>-</u>	<u>-</u>	<u>193,322</u>
Total property, plant and equipment	4,544,152	1,302,071	40,239	269,250	6,155,712
Less accumulated depreciation	<u>677,169</u>	<u>168,328</u>	<u>34,175</u>	<u>78,901</u>	<u>958,573</u>
Net property, plant and equipment	<u>3,866,983</u>	<u>1,133,743</u>	<u>6,064</u>	<u>190,349</u>	<u>5,197,139</u>
<b>OTHER ASSETS</b>					
Unearned long-term lease income	-	-	-	22,631	22,631
Special assessments receivable, net of current portion	257,014	572,162	-	-	829,176
Riser and benefit charges receivable	87,108	-	-	-	87,108
Bond issuance costs, net	<u>7,196</u>	<u>2,527</u>	<u>-</u>	<u>-</u>	<u>9,723</u>
Total other assets	<u>351,318</u>	<u>574,689</u>	<u>-</u>	<u>22,631</u>	<u>948,638</u>
Total assets	<u>\$4,578,755</u>	<u>\$2,131,232</u>	<u>\$ 7,879</u>	<u>\$ 289,850</u>	<u>\$7,007,716</u>

\* Major Funds

# Peninsula Township

## COMBINING STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued

March 31, 2005

	Business-Type Activities - Enterprise Funds				
	Sewer Fund*	Water Fund*	Compactor Station Fund	Tower Fund	Total
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 17,914	\$ 35,234	\$ 19	\$ 14,280	\$ 67,447
Current portion of bonds and notes payable	209,326	53,747	-	27,104	290,177
Accrued interest	38,506	12,556	-	-	51,062
Customer deposits	240	-	-	-	240
Due to other funds	<u>131,897</u>	<u>31,011</u>	<u>-</u>	<u>-</u>	<u>162,908</u>
Total current liabilities	<u>397,883</u>	<u>132,548</u>	<u>19</u>	<u>41,384</u>	<u>571,834</u>
<b>LONG-TERM DEBT, net of current portion</b>					
General obligation bonds	795,000	573,363	-	-	1,368,363
Contract payable	-	-	-	105,566	105,566
Sewer Treatment Plant bonds	<u>1,690,738</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,690,738</u>
Total long-term debt	<u>2,485,738</u>	<u>573,363</u>	<u>-</u>	<u>105,566</u>	<u>3,164,667</u>
Total liabilities	<u>2,883,621</u>	<u>705,911</u>	<u>19</u>	<u>146,950</u>	<u>3,736,501</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,133,413	494,077	6,064	57,679	1,691,233
Unrestricted	<u>561,721</u>	<u>931,244</u>	<u>1,796</u>	<u>85,221</u>	<u>1,579,982</u>
Total net assets	<u>1,695,134</u>	<u>1,425,321</u>	<u>7,860</u>	<u>142,900</u>	<u>3,271,215</u>
Total liabilities and net assets	<u>\$4,578,755</u>	<u>\$2,131,232</u>	<u>\$ 7,879</u>	<u>\$ 289,850</u>	<u>\$7,007,716</u>

\* Major Funds

# Peninsula Township

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

For the year ended March 31, 2005

	Business-Type Activities - Enterprise Funds				
	Sewer Fund *	Water Fund *	Compactor Station Fund	Tower Fund	Total
Operating revenue					
Charges for services	\$ 185,229	\$ 83,421	\$ 46,960	\$ 57,188	\$ 372,798
Other income	<u>3,269</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,269</u>
Total operating revenue	<u>188,498</u>	<u>83,421</u>	<u>46,960</u>	<u>57,188</u>	<u>376,067</u>
Operating expenses					
Amortization	1,426	777	-	-	2,203
Debt service interest	112,876	12,476	-	9,805	135,157
Contractual services	103,891	90,293	29,845	-	224,029
Salaries and wages	-	-	14,735	-	14,735
Repairs and maintenance	-	-	781	-	781
Depreciation	79,495	22,470	300	10,622	112,887
Utilities	-	-	539	-	539
Communications	-	-	133	-	133
Payroll taxes	-	-	1,000	-	1,000
Supplies	<u>1,134</u>	<u>393</u>	<u>1,123</u>	<u>-</u>	<u>2,650</u>
Total operating expenses	<u>298,822</u>	<u>126,409</u>	<u>48,456</u>	<u>20,427</u>	<u>494,114</u>
Operating income (loss)	<u>(110,324)</u>	<u>(42,988)</u>	<u>(1,496)</u>	<u>36,761</u>	<u>(118,047)</u>
Other income and expenses					
Interest income	35,097	40,785	89	1,129	77,100
Operating transfer in (out)	<u>6,800</u>	<u>(6,800)</u>	<u>1,500</u>	<u>(1,500)</u>	<u>-</u>
Total other income and expenses	<u>41,897</u>	<u>33,985</u>	<u>1,589</u>	<u>(371)</u>	<u>77,100</u>
<b>NET EARNINGS (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(68,427)</b>	<b>(9,003)</b>	<b>93</b>	<b>36,390</b>	<b>(40,947)</b>
Capital contributions	<u>90,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,000</u>
<b>CHANGE IN NET ASSETS</b>	<b>21,573</b>	<b>(9,003)</b>	<b>93</b>	<b>36,390</b>	<b>49,053</b>
Net assets, beginning of year	<u>1,673,561</u>	<u>1,434,324</u>	<u>7,767</u>	<u>106,510</u>	<u>3,222,162</u>
Net assets, end of year	<u>\$ 1,695,134</u>	<u>\$ 1,425,321</u>	<u>\$ 7,860</u>	<u>\$ 142,900</u>	<u>\$ 3,271,215</u>

\* Major Funds

The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended March 31, 2005

	Business-Type Activities - Enterprise Funds				
	Sewer Fund *	Water Fund *	Compactor Station Fund	Tower Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 276,999	\$ 81,759	\$ 46,960	\$ 71,468	\$ 477,186
Cash payments to employees and suppliers	(187,756)	(128,291)	(59,142)	-	(375,189)
Interest paid	(85,792)	(5,739)	-	(9,805)	(101,336)
Net cash provided (used) by operating activities	3,451	(52,271)	(12,182)	61,663	661
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of fixed assets	(146,097)	(56,862)	-	-	(202,959)
Investment earnings, including interest income from special assessments	35,097	40,785	89	3,866	79,837
Net cash provided (used) by investing activities	(111,000)	(16,077)	89	3,866	(123,122)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Operating transfers from (to) other funds	6,800	(6,800)	1,500	(1,500)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Collection of special assessment	86,108	82,904	-	-	169,012
Capital contribution	90,000	-	-	-	90,000
Principle payments	(171,745)	(44,842)	-	(29,676)	(246,263)
Net cash provided (used) by capital and related financing activities	4,363	38,062	-	(29,676)	12,749
<b>NET INCREASE (DECREASE) IN CASH</b>	(96,386)	(37,086)	(10,593)	34,353	(109,712)
Cash, beginning of year	209,764	280,827	10,797	42,517	543,905
Cash, end of year	<u>\$ 113,378</u>	<u>\$ 243,741</u>	<u>\$ 204</u>	<u>\$ 76,870</u>	<u>\$ 434,193</u>
<b>Non-cash activities</b>					
County issued bonds for wastewater plant expansion	<u>\$ 771,257</u>	<u>\$ 487,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,258,367</u>

\* Major Funds

The accompanying notes are an integral part of these financial statements.

**Peninsula Township**

**STATEMENT OF FIDUCIARY NET ASSETS**

March 31, 2005

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 548,821
Investments	<u>57,887</u>
Total assets	<u><u>\$ 606,708</u></u>
 <b>LIABILITIES</b>	
Due to other funds	\$ 63,535
Due to others	26,407
Due to retired employees	197,437
Due to library	<u>319,329</u>
Total liabilities	<u><u>\$ 606,708</u></u>

The accompanying notes are an integral part of these financial statements.

# **Peninsula Township**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

The accounting and reporting framework and the significant accounting principles and practices of Peninsula Township (the "Township") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Township's financial activities for the year ended March 31, 2005.

#### ***Financial Reporting Entity***

The Township's financial statements include the accounts of all Township operations. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Township is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Township. Additionally, the Township is required to consider other organizations for which the nature and significance of their relationship with the Township are such that exclusion would cause the Township's financial statements to be misleading or incomplete. The Township has not identified any blended or discretely presented component units requiring inclusion in the Township's financial statements.

#### ***Government-Wide and Fund Financial Statements***

##### ***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the Township as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues.

The statement of activities reports the expenses of a given fund offset by program revenues directly connected with that fund. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

##### ***Fund Financial Statements***

The balance sheets and statements of revenues, expenditures/expenses and changes in fund balance/net assets (i.e. fund financial statements) for the Township's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The fund financial statements of the Township are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The Township applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

The fiduciary funds are generally maintained on a cash basis which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

### ***Revenues***

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Fund Types and Major Funds*

#### *Activities in Major Funds*

#### GOVERNMENTAL FUNDS

**General Fund** - This fund is used to account for all financial resources except those provided for in other funds. The fund includes the general operating expenditures of the Township.

**Fire Department Fund** - This fund is used to account for the development and operation of the Township Fire Department. Financing is provided by special assessments on the Township's real property.

**Purchase Development Rights Fund ("PDR")** - This fund is used to account for the acquisition of development rights. Financing is provided by a special tax levy, State and Federal grants and issuance of general long-term debt obligations.

#### PROPRIETARY FUNDS

**Sewer Fund** - This fund is used to account for the construction of the Township's sewer system and operation thereof. Financing is provided by Federal and State grants, bond issues, special assessments and user charges.

**Water Fund** - This fund is used to account for the construction of the Township's water system and operation thereof. Financing is provided by customer contributions, bond issues, special assessments and user charges.

#### *Activities in Non-Major Funds*

#### GOVERNMENTAL FUNDS

**Special Revenue Funds** - These funds are used to account for specific revenue (other than special assessments, expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

**Capital Project Funds** - The Capital Project Fund is used to account for construction of central administrative offices. Financing is provided by a transfer from the Public Improvements - Building Fund.

**Debt Service Fund** - This fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

## NOTES TO FINANCIAL STATEMENTS - Continued

### PROPRIETARY FUNDS

**Enterprise Funds** - These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

### FIDUCIARY FUNDS

**Trust and Agency Funds** - These funds account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds include Expendable Trust, Non-Expendable Trust and Agency Funds.

### *Budgets and Budgetary Accounting*

Budgets are adopted by the Township officials for the primary government's General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the functional level.

### *Cash and Investments*

The Township considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

### *Interfund Transactions and Balances*

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Due to/from other funds are short-term interfund balances that occur in the normal course of operations. Advances to/from other funds are long-term interfund financing arrangements.

### *Proprietary Funds - Property, Plant and Equipment*

Property, plant and equipment used in proprietary funds are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Township generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction in process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

## NOTES TO FINANCIAL STATEMENTS - Continued

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	15 years
Buildings and improvements	20 - 50 years
Sewer systems	50 years
Equipment	5 - 10 years
Towers	20 - 50 years

### ***Governmental Funds - Property, Plant and Equipment***

Property, plant and equipment used in governmental funds are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Township generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction in process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	15 years
Buildings and improvements	20 - 50 years
Equipment	5 - 10 years
Vehicles	5 - 10 years

### ***Restricted Assets***

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as needed.

### ***Compensated Absences***

The Township's policy is to grant employees 5 leave days per year. Prior to the end of the year, employees are paid for any remaining unused leave days at \$100 per day and are not allowed to carryover days to the next year. Consequently, there is no liability for accumulated unpaid leave.

Employees earn vacation leave benefits on their anniversary date, the amount of which is dependent on their length of employment. Benefits must be used within one year and cannot be carried over. Accordingly, all accrued vacation is recorded as a current liability in the applicable funds.

### ***Fund Equity***

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of Proprietary Funds represent the net assets that have not been legally identified for specific purposes.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **NOTE B - BUDGETARY POLICY AND PRACTICE**

Michigan Public Act 621 of 1978 also provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended March 31, 2005, the Township complied with the act as displayed in the Budgetary Comparison Schedules on pages 28 - 30.

### **NOTE C - CASH AND INVESTMENTS**

At March 31, 2005, the Township's cash and investments include the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Bank deposits	\$ 6,253,960	\$ -	\$ 6,253,960
Investments	-	107,465	107,465
	<u>\$ 6,253,960</u>	<u>\$ 107,465</u>	<u>\$ 6,361,425</u>

#### ***Bank Deposits***

All of the Township's bank deposits are with financial institutions which provide FDIC insurance coverage. Michigan law prohibits collateralization of bank accounts.

As of March 31, 2005, \$6,038,684 of the Township's bank balance of \$6,396,571 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### ***Investments***

The Township's investment policy permits investments in the following vehicles:

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States or the State of Michigan.
2. Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

## NOTES TO FINANCIAL STATEMENTS - Continued

Investments at March 31, 2005 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificate of Deposits	\$ 107,465	\$ 107,465	\$ -	\$ -	\$ -

### *Interest Rate Risk*

In accordance with the Township's investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities and limiting the average maturity in accordance with the Township's cash requirements.

### *Credit Risk*

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The Township's investment policy further limit it's investment choices as described above.

## **NOTE D - PROPERTY TAXES**

The Township levies current property taxes between December 1 and February 28 for the applicable school districts, county and community college as well as its own levy. In addition, the Township levies all of the schools' operating millage between July 1 and February 14. The total levy is 44.31 mills for non-homestead property and 26.31 mills for homestead property. The Township's portion is 0.9 mill for the special assessment fire millage on state equalized value on taxable property of \$418,185,827 and 2.8843 mills for Ad Valorem taxes on taxable property value of \$423,438,519.

The real property taxes which become delinquent March 1 are paid to the various taxing authorities the following May out of the county delinquent tax revolving fund. Therefore, property taxes are reported as revenue in the fiscal year in which they are levied.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE E - INVESTMENT IN CAPITAL ASSETS**

Investment in capital assets changed as follows during the year ended March 31, 2005:

**Governmental Activities - General Fixed Assets**

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and land development rights	\$ 3,994,550	\$ 1,067,430	\$ -	\$ 5,061,980
Building and improvements	344,054	9,540	-	353,594
Equipment and furniture	557,108	47,092	-	604,200
Vehicles	<u>323,526</u>	<u>125,637</u>	<u>-</u>	<u>449,163</u>
Total depreciable assets	5,219,238	1,249,699	-	6,468,937
Less accumulated depreciation	<u>(137,071)</u>	<u>(109,157)</u>	<u>-</u>	<u>(246,228)</u>
Total capital assets, net	<u>\$ 5,082,167</u>	<u>\$ 1,140,542</u>	<u>\$ -</u>	<u>\$ 6,222,709</u>

**Business-Type Activities - Enterprise Funds**

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and improvements	\$ 6,530	\$ -	\$ -	\$ 6,530
Tower	262,720	-	-	262,720
Equipment	789,996	506,588	-	1,296,584
Sewer projects	3,625,299	771,257	-	4,396,556
Construction in progress	<u>146,097</u>	<u>47,225</u>	<u>-</u>	<u>193,322</u>
Total depreciable assets	4,830,642	1,325,070	-	6,155,712
Less accumulated depreciation	<u>(845,686)</u>	<u>(112,887)</u>	<u>-</u>	<u>(958,573)</u>
Total capital assets, net	<u>\$ 3,984,956</u>	<u>\$ 1,212,183</u>	<u>\$ -</u>	<u>\$ 5,197,139</u>

# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE F - LONG-TERM DEBT

Long-term debt consists of the following:

Bond payable for purchase of development rights is recorded in the long-term debt group of accounts as it is expected the debt will be repaid from a special property tax levy. The Township will make annual payments ranging from \$40,000 to \$525,000, including interest ranging from 2.5% to 4.35% through 2010.	\$ 5,000,000
Installment contracts payable for purchase of development rights are recorded in the long-term debt group of accounts as it is expected the debt will be repaid from a special property tax levy. The Township will make annual payments ranging from \$301,118 to \$315,233, including interest ranging from 5.375% to 5.700% through 2010.	1,344,920
1990 Sewage Disposal Bonds are recorded in the Sewer Fund as the debt will be repaid from special assessments recorded in the Proprietary Funds. Annual required principal payments range from \$55,000 to 6.25%, plus interest at 2% through October 2010.	710,000
1991 Sewage Disposal Bonds are recorded in the Sewer Fund as the debt will be repaid from special assessments recorded in the Proprietary Funds. Annual required principal payments range from \$10,000 to \$20,000, plus interest from 5.5% to 7.5% through October 2009.	85,000
1990 Water Supply Bonds are recorded in the Water Fund as the debt will be repaid from special assessments recorded in the Proprietary Funds. Annual required principal payments range from \$25,000 to \$35,000, plus interest ranging from 6.25% to 8.25% through October 2008.	140,000
Estimated liability for a portion of the County Wastewater Treatment Plant's debt is recorded in the Sewer Fund as it will be repaid from user charges. Estimated annual required principal payments range from \$3,171 to \$5,059, plus interest through May 2015.	41,374
Estimated liability for a portion of the County Wastewater Treatment Plant's debt is recorded in the Water Fund as it will be repaid from user charges. Estimated annual required principal payments range from \$10,047 to \$19,685, plus interest through May 2022 .	250,367
Estimated liability for a portion of the County Sewer and Water Improvement debt is recorded in the Sewer Fund as it will be repaid from user charges. Estimated annual required principal payments range from \$30,000 to \$75,000, plus interest through November 2024.	1,008,000
Estimated liability for a portion of the County Wastewater Treatment Plant's debt is recorded in the Sewer Fund as it will be repaid from user charges. Estimated annual required principal payments range from \$41,000 to \$79,000, plus interest through November 2023.	1,087,433

## NOTES TO FINANCIAL STATEMENTS - Continued

Estimated liability for contract payable for wireless tower debt is recorded in the Tower Fund and is to be repaid from co-location fees. Estimated annual payments range from \$9,489 and \$9,489, including interest at NYCP rate, plus 2% through 2008. The Township's obligation is to reimburse NPI for the cost of the tower via a 10-year tower lease agreement with NPI. The contract payable is reduced by the monthly lease amount from NPI and 2008 of any co-location fees. In the event this liability is not paid at the end of the lease, the unpaid balance will become a contribution to the Township.

	\$ 132,670
Total long-term debt	9,799,764
Unamortized bond issuance cost	<u>(69,210)</u>
	<u>\$ 9,730,554</u>

The following is a summary of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
<b>Governmental Funds</b>				
Notes payable -				
development rights	\$ 2,929,016	\$ -	\$ (1,584,096)	\$ 1,344,920
Bond payable	-	5,000,000	-	5,000,000
Unamortized bond issuance costs	<u>-</u>	<u>(73,281)</u>	<u>4,071</u>	<u>(69,210)</u>
	<u>\$ 2,929,016</u>	<u>\$ 4,926,719</u>	<u>\$ (1,580,025)</u>	<u>\$ 6,275,710</u>
<b>Enterprise Funds</b>				
Sewer Fund	\$ 2,095,552	\$ 786,768	\$ 187,256	\$ 2,695,064
Water Fund	175,000	496,952	44,842	627,110
NPI Wireless Tower				
Contract payable	<u>162,345</u>	<u>-</u>	<u>29,675</u>	<u>132,670</u>
	<u>\$ 2,432,897</u>	<u>\$ 1,283,720</u>	<u>\$ 261,773</u>	<u>\$ 3,454,844</u>

### ***Annual Requirements to Amortize Long-Term Debt***

Annual requirements to amortize long-term debt outstanding as of March 31, 2005, including interest payments of \$3,967,338, are as follows:

# NOTES TO FINANCIAL STATEMENTS - Continued

<u>Years Ending March 31,</u>	<u>Enterprise Funds</u>	<u>Governmental Funds</u>
2006	\$ 421,378	\$ 530,964
2007	422,463	545,545
2008	442,856	554,488
2009	392,894	568,251
2010	348,869	611,601
2011-2015	984,453	2,161,288
2016-2020	906,083	2,470,600
2021-2025	<u>768,021</u>	<u>1,637,348</u>
Total	<u>\$ 4,687,017</u>	<u>\$ 9,080,085</u>

Interest expense and interest paid for the year ended March 31, 2005 were \$343,564 and \$226,821, respectively.

## NOTE G - INTERFUND RECEIVABLES AND PAYABLES

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General Fund	\$ 104,412	General Fund	\$ 12,676
Special Revenue Fund	32,097	Special Revenue Fund	160,206
Enterprise Fund	270,863	Enterprise Fund	162,908
Trust and Agency Fund	-	Trust and Agency Fund	63,535
Capital Project Fund	<u>27,321</u>	Capital Project Fund	<u>35,368</u>
Total	<u>\$ 434,693</u>	Total	<u>\$ 434,693</u>

## NOTE H - INTERFUND TRANSFERS

### *Operating Transfers*

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

## NOTES TO FINANCIAL STATEMENTS - Continued

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity.

Fund	Transfers In	Transfers Out
General	\$ 76,000	\$ 12,000
Bowers Harbor Improvement	-	1,000
Purchase of Development Rights ("PDR")	-	316,000
Debt Service	316,000	-
Cable	-	75,000
Compactor Station	1,500	-
Tower	-	1,500
Subtotal	393,500	405,500
Employer Medical Benefit	12,000	-
Total primary government	<u>\$ 405,500</u>	<u>\$ 405,500</u>

### NOTE I - PENSION PLAN

The Township participates in a defined contribution (money purchase) pension plan through Manufacturer's Life Insurance Company. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the year ended March 31, 2005 was \$395,578; total payroll for the year ended March 31, 2005 was \$504,223. Employer contributions are based upon a percentage of annual payroll. Employees may make additional contributions if they so desire. Employees are vested 100% in employer contributions after 20 months of service.

The Township fully funded its required contribution for the year ended March 31, 2005. Employer contributions for the year ended March 31, 2005, nine months ended March 31, 2004 and year ended June 30, 2003 amounted to \$51,425, \$40,540 and \$49,034 or 13%, of covered payroll. There were no employee contributions during the year.

None of the plan's assets are invested in the Township securities or those of related parties. There are no loans from the plan to the Township.

### NOTE J - CONTINGENCIES

#### *Grant Programs*

The Township participates in State and Federally assisted grant programs: The programs are subject to economy and efficiency and program result audits by the grantors or their representatives. The audits of the programs for or including the year ended March 31, 2005 have not yet been conducted. Accordingly, the Township's compliance with applicable grant requirements will be established at some future date.

**NOTE K - RISK MANAGEMENT**

The Township pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Township carries coverage for property damage, liability, wrongful acts, automobile, crime and inland marine claims. Also, the Township carries worker's compensation insurance with the Michigan Municipal League. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE L - JOINT VENTURES**

Peninsula Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2010 with the City of Traverse City, the Townships of Acme, East Bay and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the Wastewater Treatment Plant. Grand Traverse County is the owner of the Wastewater Treatment Plant and the City of Traverse City is the owner of all of the multi-user facilities. Ownership of the Wastewater Treatment Plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself and the Townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the Townships as to the Wastewater Treatment Plant's operations and the Townships shall have the right to comment on all matters connected with the administration of the plant. Prior to June 30, the City of Traverse City shall submit a proposed budget for the operation of the Wastewater Treatment Plant for the year commencing July 1. The Townships have 30 days in which to comment on the proposed budget.

Each of the parties of the agreement is entitled to make use of a portion of the Wastewater Treatment Plant's capacity as follows:

<u>Party</u>	<u>Capacity Right</u>
City of Traverse City	62.45 %
Garfield Township	14.37
East Bay Township	11.24
Elmwood Township	4.70
Acme Township	4.37
Peninsula Township	2.87
	<u>100.00 %</u>

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of the Wastewater Treatment Plant costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

## NOTES TO FINANCIAL STATEMENTS - Continued

The Township is also liable for a portion of the Wastewater Treatment Plant's debt. The liability is determined on a biannual basis based upon the amount of the Township's flows through the Wastewater Treatment Plant. For the year ended March 31, 2005, the Township's percentage ranged from 1.00% to 1.53%. The estimate of the Township's portion of Wastewater Treatment Plant debt is included in long-term debt. (See Note G).

### NOTE M - RECONCILIATION OF CASH FLOWS

A reconciliation of operating loss to net cash used by operating activities follows:

Operating loss	\$ (118,047)
Adjustments to reconcile net earnings	
Depreciation and amortization	115,090
Increase in accounts receivable	(5,776)
Increase in accounts payable	56,442
Increase in accrued interest expense	33,821
Decrease in due to other funds	<u>(80,869)</u>
Net cash used by operating activities	<u>\$ 661</u>

### NOTE N - TERMINATION OF RETIREES' HEALTH INSURANCE BENEFIT PLAN

Subsequent to year end, the Township terminated the health insurance benefits plan to retirees. The plan termination is reported as a special item on the statement of activities for the year ended March 31, 2005.

### NOTE O - SUBSEQUENT EVENTS

The Township committed to future PDR purchases for approximately \$1,000,000 and has received a grant subsequent to year end to cover half the cost of the purchase. The Township has also committed to purchase a tanker for the fire department for approximately \$200,000.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# Peninsula Township

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the year ended March 31, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
<b>REVENUES</b>					
Taxes	\$ 301,900	\$ 301,900	\$ 296,491	\$ -	\$ (5,409)
State and Federal grants	369,000	369,000	357,533	-	(11,467)
Charges for services	2,800	2,800	-	-	(2,800)
Interest and rentals	35,000	35,000	15,354	-	(19,646)
Other revenue	12,000	12,000	22,680	-	10,680
Total revenues	<u>720,700</u>	<u>720,700</u>	<u>692,058</u>	<u>-</u>	<u>(28,642)</u>
<b>EXPENDITURES</b>					
Legislative	51,500	50,000	47,515	1,500	2,485
General government	561,720	575,340	547,370	(13,620)	27,970
Public safety	110,550	113,500	112,994	(2,950)	506
Recreation and culture	75,430	75,430	69,440	-	5,990
Total expenditures	<u>799,200</u>	<u>814,270</u>	<u>777,319</u>	<u>(15,070)</u>	<u>36,951</u>
<b>REVENUES (UNDER) OVER EXPENDITURES</b>	<u>(78,500)</u>	<u>(93,570)</u>	<u>(85,261)</u>	<u>(15,070)</u>	<u>8,309</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	75,000	75,000	76,000	-	1,000
Operating transfers out	12,000	-	(12,000)	(12,000)	(12,000)
Total other financing sources (uses)	<u>87,000</u>	<u>75,000</u>	<u>64,000</u>	<u>(12,000)</u>	<u>(11,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	8,500	(18,570)	(21,261)	(27,070)	(2,691)
Fund balance, beginning of year	<u>421,626</u>	<u>421,626</u>	<u>416,136</u>	<u>-</u>	<u>(5,490)</u>
Fund balance, end of year	<u>\$ 430,126</u>	<u>\$ 403,056</u>	<u>\$ 394,875</u>	<u>\$ (27,070)</u>	<u>\$ (8,181)</u>

# Peninsula Township

## BUDGETARY COMPARISON SCHEDULE FOR THE FIRE FUND

For the year ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u> (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
<b>REVENUES</b>					
Taxes	\$ 351,200	\$ 351,200	\$ 375,616	\$ -	\$ 24,416
State and Federal grants	-	-	3,150	-	3,150
Interest and rentals	9,500	9,500	7,725	-	(1,775)
Other revenue	<u>4,500</u>	<u>4,500</u>	<u>350</u>	<u>-</u>	<u>(4,150)</u>
Total revenues	<u>365,200</u>	<u>365,200</u>	<u>386,841</u>	<u>-</u>	<u>21,641</u>
<b>EXPENDITURES</b>					
Public safety	<u>420,950</u>	<u>432,950</u>	<u>399,273</u>	<u>(12,000)</u>	<u>33,677</u>
<b>REVENUES (UNDER) OVER EXPENDITURES</b>	(55,750)	(67,750)	(12,432)	(12,000)	55,318
Fund balance, beginning of year	<u>357,194</u>	<u>357,194</u>	<u>551,158</u>	<u>-</u>	<u>193,964</u>
Fund balance, end of year	<u>\$ 301,444</u>	<u>\$ 289,444</u>	<u>\$ 538,726</u>	<u>\$ (12,000)</u>	<u>\$ 249,282</u>

# Peninsula Township

## BUDGETARY COMPARISON SCHEDULE FOR THE PDR FUND

For the year ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
<b>REVENUES</b>					
Taxes	\$ 764,000	\$ 764,000	\$ 809,422	\$ -	\$ 45,422
State and Federal grants	500,000	5,000	-	(495,000)	(5,000)
Interest and rentals	5,000	5,000	37,071	-	32,071
Total revenues	<u>1,269,000</u>	<u>774,000</u>	<u>846,493</u>	<u>(495,000)</u>	<u>72,493</u>
<b>EXPENDITURES</b>					
General government	<u>3,037,000</u>	<u>3,037,000</u>	<u>2,546,149</u>	<u>-</u>	<u>490,851</u>
<b>REVENUES (UNDER) OVER EXPENDITURES</b>	<u>(1,768,000)</u>	<u>(2,263,000)</u>	<u>(1,699,656)</u>	<u>(495,000)</u>	<u>563,344</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Note proceeds	2,000,000	2,000,000	5,000,000	-	3,000,000
Bond issuance costs	-	-	(73,281)	-	(73,281)
Operating transfers out	<u>(306,894)</u>	<u>(306,894)</u>	<u>(316,000)</u>	<u>-</u>	<u>(9,106)</u>
Total other financing sources (uses)	<u>1,693,106</u>	<u>1,693,106</u>	<u>4,610,719</u>	<u>-</u>	<u>2,917,613</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(74,894)</u>	<u>(569,894)</u>	<u>2,911,063</u>	<u>(495,000)</u>	<u>3,480,957</u>
Fund balance, beginning of year	<u>767,884</u>	<u>767,884</u>	<u>1,201,010</u>	<u>-</u>	<u>433,126</u>
Fund balance, end of year	<u>\$ 692,990</u>	<u>\$ 197,990</u>	<u>\$ 4,112,073</u>	<u>\$ (495,000)</u>	<u>\$ 3,914,083</u>

## **COMBINING FINANCIAL STATEMENTS**

# Peninsula Township

## COMBINING BALANCE SHEETS - NON-MAJOR GOVERNMENTAL FUNDS

March 31, 2005

Special Revenue Funds												
	Police	Bowers Harbor Improvement	Public Improvement	Senior Center	Log Home Maintenance	Summer Tax Collection	Public Improvement Roads	Public Improvement Buildings	Cable	Capital Project Fund	Debt Service Fund	Total Other Non-Major Funds
ASSETS												
Cash and investments	\$ 129,095	\$ 277	\$ 21,784	\$ 47,318	\$ 5,173	\$ 51,514	\$ 22,197	\$ 2,113	\$ 120,000	\$ 14,439	\$ 1,546	\$ 415,456
Accounts and advances receivable	-	-	-	-	-	383	-	-	-	-	-	383
Property taxes receivable	2,350	-	-	1,173	-	-	-	-	-	-	-	3,523
Prepaid expenses	-	-	28	-	-	-	-	-	-	-	-	28
Due from other funds	-	-	-	-	-	-	-	-	-	27,321	-	27,321
Total assets	\$ 131,445	\$ 277	\$ 21,812	\$ 48,491	\$ 5,173	\$ 51,897	\$ 22,197	\$ 2,113	\$ 120,000	\$ 41,760	\$ 1,546	\$ 446,711
LIABILITIES AND FUND BALANCES												
LIABILITIES												
Accounts payable	\$ 15,528	\$ -	\$ -	\$ 11,330	\$ -	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,913
Due to other funds	7,766	-	-	350	-	25,475	1,900	-	31,850	35,368	-	102,709
Total liabilities	23,294	-	-	11,680	-	25,530	1,900	-	31,850	35,368	-	129,622
FUND BALANCES												
Unreserved	108,151	277	21,812	36,811	5,173	26,367	20,297	2,113	88,150	6,392	1,546	317,089
Total liabilities and fund balances	\$ 131,445	\$ 277	\$ 21,812	\$ 48,491	\$ 5,173	\$ 51,897	\$ 22,197	\$ 2,113	\$ 120,000	\$ 41,760	\$ 1,546	\$ 446,711

# Peninsula Township

## COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

For the year ended March 31, 2005

	Special Revenue Funds											Total Other Non-Major Funds
	Police	Bowers Harbor Improvement	Public Improvement	Senior Center	Log Home Maintenance	Summer Tax Collection	Public Improvement Roads	Public Improvement Buildings	Cable	Capital Project Fund	Debt Service Fund	
Revenues												
Taxes	\$ 77,185	\$ -	\$ -	\$ 38,544	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,729
Contributions - local sources	-	200	-	-	1,105	15,140	-	-	-	-	9	16,454
Interest and rentals	1,505	23	387	315	98	827	370	43	1,475	235	-	5,278
Other revenue	-	-	3,002	-	-	-	-	-	74,939	-	-	77,941
Total revenues	78,690	223	3,389	38,859	1,203	15,967	370	43	76,414	235	9	215,402
Expenditures												
General government	-	-	5,991	11,330	-	13,781	-	1,820	3,736	-	-	36,658
Public safety	61,148	-	-	-	-	-	2,618	-	-	-	-	63,766
Debt service	-	-	-	-	-	-	-	-	-	-	315,233	315,233
Total expenditures	61,148	-	5,991	11,330	-	13,781	2,618	1,820	3,736	-	315,233	415,657
REVENUES OVER (UNDER) EXPENDITURES	17,542	223	(2,602)	27,529	1,203	2,186	(2,248)	(1,777)	72,678	235	(315,224)	(200,255)
Other financing sources (uses)												
Operating transfers in	-	-	-	-	-	-	-	-	-	-	316,000	316,000
Operating transfers out	-	(1,000)	-	-	-	-	-	-	(75,000)	-	-	(76,000)
Total other financing sources (uses)	-	(1,000)	-	-	-	-	-	-	(75,000)	-	316,000	240,000
REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES	17,542	(777)	(2,602)	27,529	1,203	2,186	(2,248)	(1,777)	(2,322)	235	776	39,745
Fund balance, beginning of year	90,609	1,054	24,414	9,282	3,970	24,181	22,545	3,890	90,472	6,157	770	277,344
Fund balance, end of year	\$ 108,151	\$ 277	\$ 21,812	\$ 36,811	\$ 5,173	\$ 26,367	\$ 20,297	\$ 2,113	\$ 88,150	\$ 6,392	\$ 1,546	\$ 317,089



DENNIS, GARTLAND & NIERGARTH P.C.

Business and Financial Advisors  
*Our clients' success – our business*

Thomas E. Gartland, CPA  
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Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary F. Krantz, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Township Board  
Peninsula Township

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of ***Peninsula Township*** (the "Township") as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated June 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we reported to management of the Township in a separate letter dated June 16, 2005.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Member of



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This report is intended solely for the information and use of the management, Township Board and others within the Township, and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth, P.C.*

June 16, 2005



DENNIS, GARTLAND & NIERGARTH P.C.

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## AUDIT-RELATED COMMUNICATION

To the Township Board  
Peninsula Township

We have audited the financial statements of Traverse Peninsula Township (the "Township") for the year ended March 31, 2005, and have issued our report thereon dated June 16, 2005. Professional standards require that we provide you with the following information related to our audit.

### ***Our Responsibility under U.S. Generally Accepted Auditing Standards***

As stated in our engagement letter dated April 25, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Peninsula Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. However, in our previous audit we identified the following areas for which opportunities exist to improve controls:

### ***Mileage Expense Reports***

The monthly mileage reports currently provide for a department, location, date and miles. To enhance documentation for mileage, the Township should consider adding a column to indicate the purpose of the trip.

We also noticed occasionally two trips a day are made to the same location. Given the distance of the Township Hall to town, consideration should be given as to whether the additional trip is necessary or whether it can be done the following day, along with other Township daily business.

### ***Update***

The monthly mileage reports have been revised and a column has been added to indicate the purpose of the trip. Expense reports are an area being more closely scrutinized by taxpayers; therefore, all trips should be fully documented.

Member of



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### ***Cash Receipts***

While reviewing monthly receipts, we observed pre-numbered receipt forms are not consistently used in numerical order. In addition, if a receipt is not used, it should be voided. To help assure transactions are properly recorded, we recommend the Clerk's copy of the receipt forms be forwarded to the Clerk within two weeks of month-end and reconciliation of the Clerk's records to the Treasurer's records be performed.

### ***Update***

Cash receipts are being kept in numerical order and voided receipts are passed on to the clerk. The Clerk's office is receiving the month-end report by the 15<sup>th</sup> day of the following month. We noted the Clerk and Treasurer are reconciling the cash accounts on a monthly basis.

### ***Front Desk Receipts***

Fees for permits are logged at the front desk. The log includes date, from whom the money was received, permit type/number and dollar amount. The log and the fees are forwarded to the Treasurer's office on a monthly basis. To improve controls over cash and checks received at the front desk, we recommend a notation be made by each entry whether fees were paid in cash or by check. Also, to safeguard the Township's assets, we recommend the fees be forwarded to the Treasurer's office more than once a month if the funds collected exceed \$500.

### ***Update***

We noted that fees are being forwarded to the Treasurer on a monthly basis and then being forwarded to the Clerk's office to be recorded in the general ledger.

### ***Current year comments:***

### ***Water and Sewer Fund Activity***

There were several journal entries proposed and made by the client to reclass monthly income and expense activity to their proper accounts in the Water and Sewer Funds. There were also several entries made to reclass bond payments between interest and principal, and to record the payment in the proper fund. The adjusting entries were made to classify activity properly between Sewer Funds 590 and 592. There is no legal requirement for the Township to account for these two funds separately. To simplify the accounting process, we recommend Fund 592 be transferred to Fund 590.

### ***General Ledger Cash Accounts***

The Township has various cash accounts within each fund—checking, savings, certificates of deposits, etc. However, the Township now pools all of its cash accounts between funds. To simplify accounting for cash transactions, we recommend each fund's cash be accounted for in one account; in the event a fund has an investment account or certificate of deposit in that fund's name only, then a separate investment account can be used to track that activity.

### ***Compactor Station***

Funds received at the Compactor Station are forwarded bi-weekly to the Treasurer. Compactor Station personnel provide the Treasurer's office with a breakdown of the dollars received as far as how many tickets were sold, amount received in cash/checks, etc. To strengthen controls at the Compactor Station, we recommend receipts be issued to customers at the Compactor Station.

### ***Update***

Currently, receipts are not being issued consistently at the Compactor Station; however, the attendants are instructed to not accept cash. We still recommend that receipts be issued for each transaction to strengthen internal controls at the Compactor Station.

### ***Significant Accounting Policies***

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Peninsula Township are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the Township during the year that were both significant and unusual and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, none of management's estimates are considered to be particularly sensitive.

### ***Audit Adjustments***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicates matters that could have a significant effect on the Township's financial reporting process.

***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Issues Discussed Prior to Retention of Independent Auditors***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Audit Committee, Township Board and management of Peninsula Township and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth, P.C.*

June 16, 2005